

Report of the auditor-general to the Limpopo provincial legislature and the council on Sekhukhune District Municipality

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the Sekhukhune District Municipality and its subsidiary set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2015, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the municipality and its subsidiary as at 30 June 2015 and their financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 31 to the consolidated financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing the claims as they believe the claims to be fraudulent. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 33 to the consolidated financial statements, the corresponding figures for year ended 30 June 2014 have been restated as a result of errors discovered during the year ended 2015 in the financial statements of the municipality and its entity at, and for the year ended, 30 June 2014

Material impairments

10. As disclosed in note 22 to the consolidated financial statements, material losses to the amount of R43 870 588 were incurred as a result of a write-off of irrecoverable trade debtors by the municipality.

Material losses

11. As disclosed in note 40 to the consolidated financial statements, material losses to the amount of R47 981 744 were incurred as a result of water distribution losses by the municipality.

Irregular expenditure

12. As disclosed in note 38 to the consolidated financial statements, the municipality and its entity incurred irregular expenditure amounting to R114 924 783 due to the contravention of supply chain management regulations.

Fruitless and wasteful expenditure

13. As disclosed in note 37 to the consolidated financial statements, the municipality and its entity incurred fruitless and wasteful expenditure amounting to R852 915 due to interest and penalties paid for late payments.

Unauthorised expenditure

14. As disclosed in note 36 to the consolidated financial statements, the municipality incurred unauthorised expenditure amounting to R32 423 782 due to overspending on votes.

Additional matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

16. The supplementary information set out on pages XX to XX does not form part of the consolidated financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA the municipality and its entity are required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon

Report on other legal and regulatory requirements

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities and objectives presented in the annual performance report of the district municipality and its entity for the year ended 30 June 2015:
 - Key development priority: Basic services delivery and infrastructure development: on pages x to x
 - Key development priority: Local economic development on pages x to x

- Development objective: To facilitate projects for economic development through agricultural development on pages x to x
 - Development objective: To facilitate projects for economic development through white meat production on pages x to x
 - Development objective: To facilitate regeneration of small town in the district on pages x to x
 - Development objective: To facilitate projects for economic development through Tswelopele farms revival on pages x to x
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the selected development priorities are as follows:

Basic services delivery and infrastructure development

Usefulness of reported performance information

Consistency of objectives, indicators and targets

24. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 58% of the reported objectives, 74% of the reported indicators, 85% of the reported targets were not consistent with those in the approved integrated development plan and service delivery and budget implementation plan. This was due to inadequate monitoring and review of aligning the objectives to the IDP throughout the year.
25. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to indicators and targets reported in the annual performance report without following the process as prescribed in section 34 of the MFMA.

Measurability of indicators and targets

26. The processes and systems that produced the indicator/measure should be verifiable, as required by the FMPPI. A total of 30% of the indicators/measures were not verifiable.

27. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 22% of the targets were not specific.
28. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 36% of the targets.
29. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 31% of the targets were not time bound.
30. This was due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

31. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of documented system descriptions and definitions for the accurate measurement, recording and monitoring of performance

Local economic development

Usefulness of reported performance information

Consistency of objectives, indicators and targets

32. Section 41(c) of the MSA requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 80% of the targets reported were not consistent with those in the approved integrated development plan and service delivery and budget implementation plan. This was because the planned indicators and targets were changed during the year

Reliability of reported performance information

33. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of documented system descriptions and definitions for the accurate measurement, recording and monitoring of performance
34. The material findings in respect of the selected development objectives (paragraph 19) are as follows:

Usefulness of reported performance information

Consistency of targets

35. Section 121(4) (d) of the MFMA requires the service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported targets were not consistent with those in the approved service delivery agreement.

Measurability of targets

36. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 100% of the targets were not specific.
37. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 100% of the targets.

Reliability of reported performance information

38. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This is due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

Additional matter

39. I draw attention to the following matter :

Achievement of planned targets

40. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs x to xx of this report.

Unaudited supplementary schedules

41. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

42. I performed procedures to obtain evidence that the municipality and its entity have complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

43. The performance of the municipal entity was not assessed during the first half of the financial year, taking into account the targets set in the service delivery agreement with the parent municipality, as required by section 88(1)(a) of the MFMA.

Annual financial statements

44. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of revenue identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the consolidated financial statements receiving an unqualified audit opinion

Expenditure management

45. Money owed by the municipality and the municipal entity was not always paid within 30 days, as required by section 65(2)(e) and 99(2)(b) of the MFMA.
46. Payments were made from the municipal entity's bank account without the approval of the accounting officer, as required by section 85(5) of the MFMA
47. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) and 95(d) of the MFMA by both the municipality and municipal entity.

Procurement and contract management

48. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by *Supply Chain Management regulation* 46(2)(e).

Asset management

49. An adequate management, accounting and information system which accounts for assets was not in place at the municipal entity, as required by section 96(2)(a) of the MFMA.
50. An effective system of internal control for assets was not in place at the municipal entity, as required by section 96(2)(b) of the MFMA.

Consequence management

51. Irregular and fruitless and wasteful expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, as required by section 102(1) of the MFMA.

Internal control

52. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

53. The leadership exercised the necessary oversight towards maintaining the audit outcome. However, there are areas which need management's attention such as performance reporting and compliance as well as the related internal controls.
54. There was inadequate oversight by the leadership regarding the municipal entity's financial and performance reporting, and compliance with legislation. In addition, related internal controls were not fully functioning.
55. The board of directors of the entity did not meet in accordance with the board charter.
56. The leadership did not implement effective human resource management principles to ensure that relevant and sufficiently skilled resources are in place to manage performance information reporting and compliance with laws and regulations.
57. Although leadership developed an action plan to address the internal control deficiencies reported in the prior year, it was not monitored regularly and adhered to.

Financial and performance management

58. Management did not fully implement its record management policy, related controls and procedures to ensure that all documentation to support reported financial and performance information was properly collected, collated and stored.
59. Adequate controls over daily and monthly processing and reconciling of transactions were not properly implemented and as a result material misstatements were identified during the audit.
60. There was no adequate review and monitoring of compliance with applicable laws and regulations.

Governance

61. The municipality and the municipal entity did not fully implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks as the risk unit has capacity challenges.

Auditor - General

Polokwane

22 December 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence